

COUNTERFEIT LUXURY BRANDS SCENARIO IN INDIA: AN EMPIRICAL REVIEW

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ABSTRACT

Counterfeiting is considered as a serious threat to the global economy. Counterfeit goods not only cause loss to the nation but also affects the employment growth by closing down small and medium industries. Right from handbags, jewelry and shoes to brake pads, electric cords, and pharmaceuticals and health care supplies, counterfeiters leave no product category untouched. This paper gives an overview of counterfeit brands market scenario and explains how it affects the economy. The goal of this paper is to provide a comprehensive review of counterfeiting of luxury goods, demand and supply side of counterfeiting, various research works carried out in areas of counterfeiting and need for study towards luxury brands counterfeiting in Indian context.

KEYWORDS: Counterfeits, Demand and Supply, Global Economy, India, Luxury Brands

INTRODUCTION

Education Federal authorities seized 1,500 counterfeit Hermes handbags from China at the Port of Los Angeles. The fake handbags, made in China, would have been worth \$14 million if sold at full price and were destined for Mexico and the United States (Chang, 2013). Delhi produces 75 per cent of counterfeit goods & caters to clients in markets across city (Vikram, 2013). In Amherst, NY, Homeland security raids kiosks at mall, seizing counterfeit goods. Special agent in charge declares them to be “a major security threat” and states that the people selling fake items “could be terrorists” (Kristen, 2013). A Pasadena woman was recently indicted on felony charges of trademark counterfeiting for allegedly selling fake NBA and NFL goods at a Pearland flea market (NIX, 2013).

The above news throws some light on the current scenario of counterfeit goods market and its spread through-out the world. Irrespective of the countries or regions, Counterfeiting has become so widespread that many now consider it a serious threat to the global economy. A recent study conducted by Business Action to Stop Counterfeiting and Piracy indicates that the global value of counterfeit and pirated goods, currently \$650 billion, is likely to be more than double by 2015. In recent years, the range of counterfeit goods has expanded significantly and no industry has been spared (Sethi, 2012). Buying of fake products at lower prices and lower quality has grown significantly worldwide and has become a serious subject of global concern (Maldonado & Hume, 2005). Right from handbags, jewelry and shoes to brake pads, electric cords and pharmaceuticals and health care supplies, counterfeiters leave no product category untouched.

India is not new to counterfeiting. A report by the United States Trade Representative (USTR) has named Nehru Place and Palika Bazaar in New Delhi, Richie Street and Burma Bazaar in Chennai, Manish Market, Heera Panna, Lamington Road and Fort District in Mumbai, and Chandni Chowk in Kolkata as markets that need to be watched out for this high-volume trade. India, in fact, continues to be on the “priority watch list” of the USTR’s “Special 301” report,

despite a detailed submission of the intellectual property rights (IPR) compliance measures initiated by it in 2009. (Mathew, 2010).

An important effect of these illegally imported goods is that they are not only cause loss to the national exchequer but also force small and medium industries to close down their operations thereby affecting employment growth. It is estimated that the government loses in excess of Rs 2200 crore (as per ACMA) a year due to sales of counterfeit auto components. This figure is just for one sector, this problem of illicit trade prevails in every sector; be it Pharmaceuticals, Cigarettes and Tobacco, Printer Cartridges, Alcohol etc.

According to the Report of the FICCI-National Initiative against Piracy and Counterfeiting:

- Share of fake/counterfeit medicines is estimated at 15-20% of the total Indian market. As per some estimates, spurious drugs worth Rs. 2500 crores annually are thrown into the market ; for soft drinks it 10%
- Fake cosmetics, toiletries and packaged foods at 10-30%
- 74% of the software and 21.5% of cigarettes sold in India are counterfeits

The continuing problem of buying and selling of counterfeit products poses threats to brand owners, retailers, and end users (i.e., consumers). Unlike counterfeit automotive parts, drugs, or pharmaceutical products, counterfeit fashion products do not cause any physical harm to its consumers. However, they tarnish companies' valuable and intangible assets such as "intellectual property" and "brand" by erosion of the equity, reputation, and positioning in the market. This erosion results in the loss of consumers' trust and confidence in the company (Green & Smith, 2002).

Due to rapidly growing counterfeiting crimes, brand owners and manufacturers are trying to seek different ways to deal with this issue to prevent the huge losses in business profits, brand reputation and consumer trust. Thus it can be said that counterfeiting is considered a social problem as it affects consumer confidence in original products and destroys brand equity (Veloutsou & Bian, 2008). It is also considered an economic problem as it puts a company at risk of future investment in research and development due to unfair competition with counterfeited products present in the market (Maldonado & Hume, 2005) and losses in revenues (Grossman & Shapiro, 1988).

Rapid diffusion of technology for manufacturing goods has improved the ability to produce duplicate products in an easy, quick, and inexpensive fashion (Financial Express, 2009). There are primarily five reasons for the sudden growth of counterfeiting in the market (Hopkins et.al., 2003),: (a) availability of technology and easy access to internet that provides various ways to produce high-quality counterfeit products by copying logos, designs, and packaging of the original brands; (b) globalization and integration of markets across the world that smoothen the flow and distribution of counterfeit products from one geographic location to another; (c) over-production of the legitimate goods in countries such as China, Vietnam, Egypt, and Columbia, resulting in the creation of counterfeit products that are sold to consumers through improper channels; (d) absence or lack of implementation of legal penalties for counterfeiting in various countries; and (e) increased linking of counterfeiting to organized crime and terrorist activities (e.g., Sheikh Omar Abdul Rahman, the prime suspect identified by FBI in the first bombing of World Trade Center in 1993, had links among 20 alleged counterfeiters selling t-shirts in the NY/NJ area).

Among the many product categories that could be counterfeited, one of the most counterfeited products is luxury item (Grossman & Shapiro, 1988). The brand is always associated with the counterfeiting, because a counterfeited luxury

brand must copy an existing famous trademarked brand (Cordell et al., 1996); meanwhile, a successful brand should have the highest attractiveness level to counterfeiters.

LUXURY BRANDS CONCEPT

Luxury brands can be defined as those whose price and quality ratios are the highest of the market (McKinsey, 1990) and even though the ratio of functionality to price might be low with regard to certain luxury goods, the ratio of intangible and situational utility to price is comparatively high (Nueno & Quelch, 1998). Therefore, luxury brands compete on the ability to evoke exclusivity, brand identity, brand awareness and perceived quality in the consumer's perspective (Phau & Prendergast, 2000). Luxury brands can be defined as the highest level of prestigious brands encompassing several physical and psychological values (Vigneron & Johnson, 1999). "Luxury brands/Luxury fashion brands are regarded as images in the minds of consumers that comprise associations about a high level of price, quality, aesthetics, rarity, extraordinariness and a high degree of non-functional associations (Heine, 2012)."

Any potential luxury brand should be evaluated by the constitutive characteristics of luxury, which are:

- **Price:** The brand offers products which belong to the most expensive products of their category.
- **Quality:** The brand offers everlasting top-of-the-line products, which won't be disposed of even after long utilization or defect, but rather repaired and which often even gain in value over time.
- **Aesthetics:** The brand behaves like a chic and vain dandy, who would never leave the house in less than perfect style. Whenever and wherever the brand is seen, it embodies a world of beauty and elegance.
- **Rarity:** In contrast to mass-market brands, the brand needs to limit its production and tries not to disclose its (high) sales numbers. The brand plays hard to get and is not available at all times or places.
- **Extraordinariness:** The brand has a mind and style of its own and its products offer a "kick" and surprise with the "expected unexpected."
- **Symbolism:** The brand stands for "the best from the best for the best"; its charisma fills the room, and regardless of whether it is of a conspicuous or understated nature, deep inside, it is swollen with pride.

Predictions of Consumer's Growing Demand for Luxury Brands in India

The recovery of the global luxury sector in 2010 is largely the result of the rise in sales of luxury goods in the US and consistent growth in demand from the emerging markets of Asia, particularly China and India. (KPMG INTERNATIONAL, 2011).

The improving lifestyles and the growing awareness of international prestige brands are driving growth in these markets. Moreover, the demand is being driven by emerging classes of affluent consumers, such as working women and financially stable youngsters.

The potential of India as a growth center for luxury goods can be judged by the increasing number of premium luxury brands entering the country (KPMG INTERNATIONAL, 2011). The Indian luxury market is estimated to have reached US\$4.7 billion in 2009, and is forecast to grow at a compound annual growth rate (CAGR) of 20.9 percent during

2009–15, to reach US\$14.7 billion by 2015, according to a CII – AT Kearney Report published in October 2010 (KPMG INTERNATIONAL, 2011).

Global luxury brands are expanding their presence in India, attracted by India's established consumer base, the rising disposable incomes of consumers, increasing brand awareness among them and the availability of credit. According to Fondazione Altagamma (an Italy-based body of luxury brands), a number of Italian luxury brands are willing to invest, expand and strengthen their presence in India. It also predicts that the total number of single-luxury-brand stores of Italian firms in India will grow from 30 in 2010 to 200 by 2020 (The Economic Times, 2010).

In October 2010, Italian luxury fashion brand Giorgio Armani announced that it would open its third store in Mumbai. Armani currently operates two stores in India, and is looking to expand to other Indian cities such as Bangalore, Chennai and Hyderabad, and establish a total of 12 stores (The Economic Times, 2010).

COUNTERFEITING CONCEPT

To counterfeit means to imitate something. Counterfeit products are fake replicas of the real product. Counterfeit products are often produced with the intent to take advantage of the superior value of the imitated product. The word counterfeit frequently describes both the forgeries of currency and documents, as well as the imitations of clothing, handbags, shoes, pharmaceuticals, aviation and automobile parts, watches, electronics, software, works of art, toys. Counterfeit products tend to have fake company logos and brands. In the case of goods, it results in patent infringement or trademark infringement. Counterfeit consumer products have reputation for being lower quality (sometimes not working at all) and may even include toxic elements.

Legally counterfeiting means to make something false, in the resemblance of that which is true; it always implies a fraudulent intent (Bouvier, 1856). Counterfeiting is the practice of manufacturing goods, often of inferior quality, and selling them under a brand name without the brand owner's authorization. Generally, counterfeit goods are sold under a trademark that is identical to or substantially indistinguishable from the brand owner's trademark for the same goods, without the approval or oversight of the trademark owner (INTA, 2013). Counterfeit products refer to the products that are copies or duplicates of original products with high brand value in the market, are sold at significantly lower prices than the original ones, and are almost indistinguishable at a distance from the original design in many aspects (Eisend & Guler, 2006).

Depending on the awareness among consumers, counterfeiting can be classified into two categories: deceptive and non-deceptive counterfeiting.

Deceptive and Non-Deceptive Counterfeiting

According to the past studies, it is observed that based on non-awareness/awareness level of the consumers the counterfeiting can be divided into Deceptive and Non-deceptive counterfeiting. Some consumers buy a counterfeit brand without being aware of the intellectual property infringement, signifying the purchase of a 'deceptive counterfeit' product (Eisend & Guler, 2006). This includes the manufacturing of duplicates that are identically packaged, have identical labels and trademarks. They are copied in an attempt to appear like the genuine products. Consumers are deceived and naively accept a counterfeited commodity (Grossman and Shapiro 1988; Kay 1990; Cordell et al., 1996). The consumers purchasing these types of counterfeit products are made to believe by the manufacturer and retailers that they are buying

the original products which in fact turns out to be made or sold illegally. This usually is seen in the case of medicines wherein the consumers might be buying a duplicate product thinking that it is a genuine one. Therefore, in this case, consumers' behavior of purchasing these products cannot be held accountable as they buy such products unknowingly. However, some consumers are aware that they are purchasing a counterfeit brand, which represents the purchase of a 'non-deceptive counterfeit' product. Since these consumers knowingly purchase the products that are not legitimate, the manufacturers and retailers cannot be blamed for deceiving the consumers (Ang et al., 2001). This form of counterfeiting is more common place in luxury brand markets (Nia & Zaichkowsky, 2000), where consumers are often able to distinguish counterfeits from genuine brands based on differences in price, the distribution channels, and the inferior quality of the product itself. This non-deceptive purchase of counterfeiting gives birth to the discussion of consumer misbehavior in the marketplace, indicating the need to understand why they do so (Bhardwaj, 2010).

LITERATURE REVIEW

As the counterfeit market industry is developing rapidly, both all over the world as well as in India, it is necessary to find out solutions to prevent manufacturing and selling of counterfeit products. Various studies from the previous literature identified many factors that contribute to the purchasing of counterfeit products some of which are as follows :

It is considered that from the demand side of counterfeit products, the most common reason to buy them is the low and affordable price (Eisend & Guler, 2006). However, studies show that consumers with higher income also involve themselves in buying counterfeit products (Eisend & Guler, 2006), which shows that price is not the only factor which generates the demand for counterfeit products. Some, researchers have identified the non-price related factors for the demand of counterfeit brands that include counterfeit product characteristics in terms of exclusivity, quality, and appeal (Wee et al., 1995); perceived price benefits, self identity, store reputation, and brand image (Alberts-Miller, 1999; Bloch et al., 1993); psychographics of individuals (Cordell et al., 1996); demographic variables (Solomon & O'Brien, 1991); social visibility (Nill & Schultz, 1996); cost benefits and prosecution risk (Wang et al., 2005); and brand status and perceived fashion content (Wee et al., 1995).

Previous studies on consumers' behavior toward counterfeiting were based either on country-of-origin (Chakraborty et al., 1996) or observations of industry data (Bloch et al., 1993; Wee et al., 1995). However, out of some recent studies in the demand side of counterfeit brands, very few have applied existing theoretical frameworks (Eisend & Guler, 2006). One such study Theory of Planned Behavior (TPB) which was carried out to determine the impacts of self-identity, fashion involvement, and readiness to take risk on intentions to purchase counterfeits (Penz & Stottinger, 2005). Although Theory of Planned Behavior (Ajzen, 1985), Theory of Reasoned Action (Ajzen & Fishbein, 1980), and Expected Utility Theory (Neumann & Morgenstern, 1944) have often been related to the phenomenon of copying or downloading illegal software. In addition, studies that have examined the relation of individual characteristics to the intention to purchase counterfeit brands have negligibly touched upon the aspects of consumers' moral beliefs and their social influence on performing a behavior (Swami et al., 2009). A study investigating consumers' intention to purchase counterfeit brands based on their social and personal consumer orientation, attitudes toward the purchase of counterfeit brands, subjective norm, and perceived control over the purchase of counterfeit brands ; in addition to the role of price sensitivity as a moderator in understanding the relationship between attitudes and intentions to purchase counterfeit and original luxury brands showed that price plays very insignificant role on purchase intentions of US consumers towards counterfeit luxury brands and original luxury brands (Bhardwaj, 2010).

From the Indian context, although study have been carried out on counterfeiting of drugs (Bhushan et al., 2013), counterfeit currencies (Bose & Das, 2013), counterfeit western brands and fashions (Nakassis, 2010), product counterfeiting and intellectual property rights (Sarkar & D'Silva, 2013); rarely study based on theoretical framework for counterfeiting products is carried out. Also, since Indian domestic markets are highly flooded with counterfeit luxury brands, it will be interesting to find out the factors affecting the huge demand of counterfeit luxury brands in Indian market.

CONCLUSIONS

This paper begins with an overview of counterfeiting market scenario both in India as well as outside India and how it is affecting the economy; which is then followed by luxury brand concept and counterfeiting concept and demand and supply side of counterfeiting. The paper then discusses about various research work carried out in areas of counterfeiting and need for study towards luxury brands counterfeiting in India due to high demand of counterfeit products in Indian market.

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